

Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 L-03 H-02
NSC-05 SS-15 STR-06 CEA-01 PA-02 PRS-01 ABF-01
FSE-00 /117 W

-----115785 240856Z /17

R 240730Z JAN 78
FM AMEMBASSY BERN
TO SECSTATE WASHDC 5627
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL ZURICH

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PASS TREAS AND FRB

USMTN ALSO FOR MISSION

USOECN ALSO FOR EMBASSY

EO 11652: NA
TAGS: EFIN SZ
SUBJ: SWISS FINANCIAL REVIEW: WEEK OF JAN 15-21

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC
STABILIZED AROUND SF 2. GOLD PRICE FLUCTUATED
BETWEEN DOLLARS 170 AND 175 PER OUNCE. HIGH
CAPITAL MARKET LIQUIDITY CONTINUED TO EXERT DOWNWARD
PRESSURE ON INTEREST RATES. SWISS NATL BANK
PRESIDENT SAID WORLDWIDE SYSTEM OF JOINT FLOATING
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EXCHANGE RATES IS PREMATURE. CREDIT SUISSE CHAIRMAN
CRITICIZED US SEC. GOVT PLANS ASK PARLIAMENT
APPROVE 8 PERCENT VALUE ADDED TAX (VAT). SWISS RAN
SF 867.6 MILLION TRADE DEFICIT IN 1977. ELEMENTS
OF SOCIALIST PARTY BANKING INITIATIVE WERE PUBLISHED. END SUMMARY.

2. FOREIGN EXCHANGE: A) DOLLAR RATE AGAINST SF

STABILIZED AROUND SF 2. SPECULATION AGAINST DOLLAR DECLINED AS CENTRAL BANKS SHOWED DETERMINATION TO COORDINATE SUPPORT OF DOLLAR. BID AND OFFER RATES' DIFFERENTIAL NARROWED SLIGHTLY. DOLLAR ROSE FROM MONDAY OPENING SF 1.96 TO SF 2 WEDNESDAY. SWISS NATL BANK REPORTEDLY DID NOT INTERVENE WEDNESDAY. DEALERS EXPECTED PRESIDENT CARTER'S STATE OF UNION SPEECH THURSDAY TO STRESS US SUPPORT FOR DOLLAR, BUT AFTERWARD DEALERS REPORTEDLY WERE NOT IMPRESSED BY US STATEMENT INTENTIONS. SLIGHT RISE IN EUROFRANC INTEREST RATES CAUSED FORWARD DISCOUNT RATES TO NARROW SLIGHTLY.

B) MOST PARTICIPANTS IN SEMINAR OF BANKERS AND INDUSTRIALISTS EXPRESSED OPPOSITION TO ANY IDEA OF DUAL EXCHANGE RATE FOR SF, INCREASED FOREX MARKET INTERVENTIONS, AND EXPORT SUBSIDIES. UNIV OF LAUSANNE CENTER FOR APPLIED ECONOMIC RESEARCH (CREA) PREDICTED SF WILL APPRECIATE AVERAGE 13.2 PERCENT ON TRADE-WEIGHTED BASIS IN 1978, COMPARED 17.6 PERCENT APPRECIATION IN 1977. RATES FOLLOWS:

ITEM - 1/16 (OPEN) - 1/20 (CLOSE)
SPOT DOLLAR - 1.9620 - 2.0000
FORWARD DISCOUNT (PERCENT PER ANNUM)
ONE MONTH - 7.26 - 7.14
TWO MONTHS - 6.68 - 6.54
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THREE MONTHS - 6.51 - 6.06
SIX MONTHS - 6.79 - 5.95
TWELVE MONTHS - 5.57 - 5.40
SF/DM - 92.62 - 94.22
GOLD - 173.5 - 173.25

3. GOLD: DEALERS NOTED PRICE FLUCTUATED WITHIN RELATIVELY SMALL RANGE. ATTRIBUTED BRIEF PRICE DECLINE WED TO NEW YORK MARKET. PREDICTED PRICE WILL CONTINUE FLUCTUATING BETWEEN DOLS 170 AND DOLS 175 PER OUNCE OVER SHORT TERM UNDER INFLUENCE SPECULATIVE PROFIT TAKING AND DOLLAR EXCHANGE RATE MOVEMENTS. SAID PRICE LEVEL WOULD BECOME FIRM IF FOREX MARKET ENJOYED EXTENDED PERIOD OF CALM. SOVIET UNION AND SOUTH AFRICA CUT BACK GOLD SALES BECAUSE OF DECREASED IMPORT FINANCING NEEDS, BUT SOUTH AFRICA INCREASED KRUEGER RAND SALES. NO MARKET REACTION TO REPORT US AGREED NOT RENEW 1975 WASHINGTON AGREEMENT TO LIMIT OFFICIAL GOLD RESERVES.

4. CAPITAL AND MONEY MARKETS: A) STOCK PRICES ROSE IN ACTIVE MARKET. SKA SHARE INDEX ROSE MORE THAN 5 POINTS TO HIT FOUR-

YEAR HIGH 250.4 THURS; CLOSED 250.2 FRIDAY. BROKERS SAID
ACTIVITY STIMULATED BY HIGH LIQUIDITY AND RELATIVELY
CALM FOREX MARKET. BUYERS WERE SELECTIVE, KEYING ON
QUALITY AND PROSPECTS FOR GROWTH WITH HIGH RETURNS.

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PASS TREAS AND FRB

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B) AVERAGE YIELD CONFEDERATION BONDS FELL TO
3.67. FOUR LARGEST BANKS AND ZURICH CANTONAL BANK
REDUCED YIELDS ON THEIR CASH BONDS 0.25 PERCENT ACROSS
THE BOARD EFFECTIVE JAN 23; NEW RATES: 3-4 YEAR BONDS
BEAR 3 PERCENT; 5-6 YEARS 3.25 PERCENT; AND 7-8 YEARS
3.5 PERCENT. FOREIGN SF BORROWINGS WILL BE LIMITED
TO SF 580 MILLION FOR JAN/FEB PERIOD.

C) ST GALLEN CANTONAL BANK ANNOUNCED SF 20
MILLION LOAN AT 3.5 PERCENT INTEREST OVER 12 YEARS
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ISSUED AT 99 PERCENT PAR TO REFINANCE EXISTING 4.75 PERCENT LOAN OF 14 YEARS. CREDIT SUISSE WILL BORROW SF 100 MILLION AT 3.75 PERCENT OVER 15 YEARS, ISSUE PRICE 101 PERCENT PAR TO REFINANCE THREE EXISTING LOANS. ASIAN DEVELOPMENT BANK WILL BORROW SF 80 MILLION AT 4.25 PERCENT OVER 15 YEARS AT 99.5 PERCENT PAR. ZURICH CANTON CANCELLED SF 50 MILLION LOAN SCHEDULED FOR FEB, EITHER TO AWAIT FURTHER INTEREST RATE DECLINE OR BECAUSE OF DECLINING INTEREST IN LOW YIELD BONDS.

D) SURVEY OF 100 SWISS PENSION FUNDS SHOWED SOME FUNDS ARE TURNING FROM LOW YIELD DOMESTIC BONDS TO FOREIGN SF BOND ISSUES WHICH BEAR HIGHER YIELDS, TO STOCKS, AND TO REAL ESTATE. INTEREST IN MOST FOREIGN CURRENCY DENOMINATED BONDS AND STOCKS HAS DECLINED BECAUSE OF HIGH FOREX RISK. HALF OF FUNDS SURVEYED WERE HESITANT ABOUT NEW DOMESTIC BONDS; ONE-THIRD DECLINE TO UNDERWRITE. FEW FUNDS PLAN INCREASE BONDS INVESTMENTS ABOVE 1977 LEVEL; 30 PERCENT PLAN REDUCE DOMESTIC BOND HOLDINGS; BUT 45 PERCENT PLAN MAINTAIN 1977 LEVEL, BECAUSE THEY HOPE FOR BETTER CONDITIONS. MOST LARGER PENSION FUNDS HOLD AVERAGE 10.4 PERCENT THEIR PORTFOLIOS IN STOCK (WHICH MIGHT RISE TO 30 PERCENT), BUT ONLY 7.6 PERCENT IN FOREIGN BONDS.

E) GENEVA SAVINGS BANK PLANS PROVIDE BUILDING RENOVATION LOANS AT ONE PERCENT BELOW FIRST CLASS MORTGAGE RATE (5 PERCENT) FOR THREE YEARS AND HALF PERCENT BELOW RATE FOR FOLLOWING TWO YEARS; FULL RATE PAYABLE IN SIXTH YEAR. OFFER MAY BE AVAILABLE FOR 2-3 YEARS.

5. SNB VIEWS: SNB PRES LEUTWILER TOLD PRESS

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DURING VISIT JAPAN HE IS SERIOUSLY CONCERNED ABOUT DOLLAR WEAKNESS, WHICH COULD HARM EXPORT INDUSTRIES OF STRONGER CURRENCY COUNTRIES. HE WELCOMED US DECISION TO SUPPORT DOLLAR BUT SAID US TRADE DEFICIT MUST ALSO BE REDUCED. SAID THERE ARE LIMITS TO FOREX MARKET INTERVENTION WHICH COULD OVER-EXPAND MONEY SUPPLY AND STIMULATE INFLATION. SAID IT IS PREMATURE TO SET EXCHANGE RATE TARGET ZONES AS SUGGESTED BY ROBERT ROOSA, BECAUSE THAT COULD LEAD TO WORLDWIDE SPECULATION. WORLDWIDE JOINT FLOAT SYSTEM IS ALSO

PREMATURE, BECAUSE IT FIRST REQUIRES ADJUSTMENT OF ECONOMIC POLICIES AND NARROWING OF INFLATION RATE DIFFERENTIALS.

6. US SEC RULSE: CREDIT SUISSE CHAIRMAN OSWALD AEPPLI TOLD SWISS-AMERICAN CHAMBER OF COMMERCE EUROPEANS ARE INCREASINGLY CONCERNED ABOUT GROWING SEC EFFORTS TO APPLY ITS RULES OVERSEAS. SEC IGNORES FACT MANY COUNTRIES HAVE REGULATIONS SUCH AS DISCLOSURE, THOUGH THEY DO NOT GO AS FAR AS US RULSE. SAID US RULES TOO LENGTHY, UNCLEAR AND CONFUSING; COULD MAKE CAPITAL FLOWS TO US MORE DIFFICULT.

7. VALUE ADDED TAX: GOVT HAS DECIDED ASK PARLIAMENT APPROVE VAT OF 8 PERCENT MAXIMUM TO HELP BRING IN ADDITIONAL REVENUES TO BALANCE FEDERAL BUDGET. PARLIAMENT IS EXPECTED TAKE UP VAT IN SPECIAL APR SESSION. GOVT HOPES VAT WILL BE INCLUDED IN DEC 1978 NATL REFERENDUM. ABRUPT CHANGE BY POLITICAL PARTIES TO SUPPORT VAT, RATHER THAN INCREASE EXISTING TURNOVER TAX, REPORTEDLY RESULTED FROM AGREEMENT HAVE LOWER TAX RATE FOR FARM PRODUCES AND SMALL BUSINESSES. RECENT ABRUPT SF APPRECIATION IS ADDITIONAL FACTOR, BECAUSE VAT WOULD BE REFUNDED FOR EXPORTS WHILE TURNOVER TAX IS NOT. MAJOR PARTIES ALSO WANT REFERENDUM BEFORE 1979 PARLIAMENTARY ELECTIONS.
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8. TRADE BALANCE: SWISS IMPORTS ROSE 10.1 PERCENT IN REAL TERMS DURING 1977 TO SF 43.03 BILLION WHILE EXPORTS ROSE 11.8 PCT IN REAL TERMS TO SF 42.16 BILLION FOR TRADE DEFICIT OF SF 867.6 MILLION, COMPARED TO 1976 TRADE SURPLUS OF SF 173.5 MILLION.

9. BANKING: PRESS REPORTED SOME ELEMENTS OF SOCIALIST PARTY DRAFT INITIATIVE TO CORRECT SITUATION WHICH RESULTED IN CREDIT SUISSE CHIASSO SCANDAL. ACCORDING PRESENT VERSION DRAFT, BANK SECRECY WOULD BE LIFTED IN CASES OF TAX FRAUD, FLIGHT CAPITAL, AND VIOLATIONS OF FOREIGN MONETARY LAWS. CONFEDERATION WOULD BE ABLE TO INVESTIGATE SWISS BANKS FOR FOREIGN JUDICIAL ASSISTANCE. BANKS WOULD DISCLOSE THEIR PARTICIPATION IN NON-BANKING COMPANIES WITH CERTAIN RESTRICTIONS ON VOTING SHARES HELD BY BANKS. BANKS WOULD INSURE SAVINGS DEPOSITS. WARNER

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